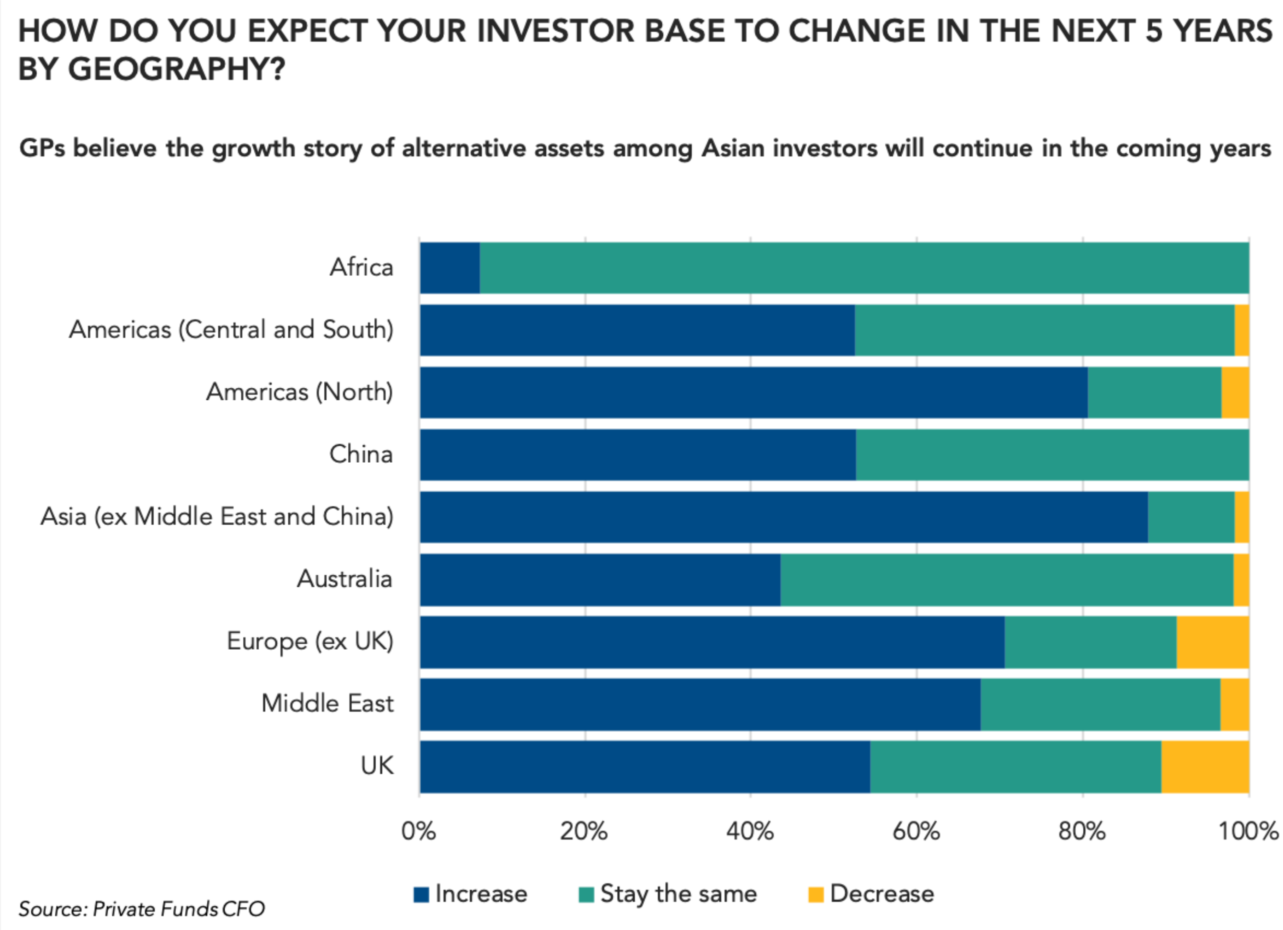
Asia's Private Credit Growth Hinges on Downturn Performance

PEI Private Credit | June 12, 2019



Private credit's downturn performance will predict its growth in Asia – and the world

Alternative asset managers expect Asia, save China and the Middle East, to be the strongest growth area for their investor base in the coming years.

The growth of alternative asset investments coming from Asia has been real, and managers believe it is set to continue over the next five years, according to a survey from sister publication Private Funds CFO.

A survey of private fund managers across the alternative asset spectrum – with about 30 percent of respondents being private debt managers – showed that approximately 88 percent believe their investor base from Asia will continue to grow, save the Middle East and China.

Australia, generally lumped into the Asia-Pacific region, was a separate choice, and almost 44 percent of fund managers surveyed expect their number of investors coming from there to increase as well.

Taken together, private fund managers have a bullish view on the area, and debt firms have benefitted particularly from South Korea's robust interest in private credit.

Key to the growth of private debt – not just in Asia but for the asset class globally – will be performance in the next downturn. Private credit, particularly direct lending, has been pitched to investors as an inherently safe alternative because LPs are higher in the capital structure and returns continue to be attractive compared to other fixed income investments.

Crucially though, will mid-market loans hold up well when the next cycle comes? Certainly covenant-lite credit agreements are much more prevalent in the upper mid-market and the broadly syndicated space, but mid-market lenders have slowly begun budging on terms they didn't think they would ever cede ground on. Whether private credit lives up to its promises will dictate the future of the asset class.